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Revisions to FY 1986-1987
REVENUE ESTIMATES

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STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

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To: South Carolina Budget and Control Board

Subject: Revisions to FY 1986-87 Revenue Estimates

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The economy continues to move upward at a moderate pace, with considerable uncertainty about economic prospects. The general economic outlook for the next six months has not changed significantly, with slower real growth anticipated in the first quarter of 1987, but with more inflation. Second quarter growth is expected to reflect improvement as the balance of trade deficit declines.

Revenues for the first six months of the fiscal year are approximately on target, with the quarterly projections met. The outlook for revenues for the remainder of FY 1986-87 has been clouded by some unusual factors such as timing and reporting differences of insurance receipts, as well as uncertainty about corporate tax revenues. December collections were encouraging and the expected positive Christmas sales should be reflected in the January data. Revenue collections in the first six months of 1987 are more than normally difficult to predict because of uncertainties in the national economic outlook, particularly the national impacts of the Tax Reform Bill and the international trade situation.

On the basis of collections to date, especially the lower than expected corporate and individual income tax receipts, a shortfall of approximately \$35 million is anticipated, as was indicated in the December 31st release, lowering the FY 1986-87 estimate of \$2680.3 to \$2645.3 million. It is anticipated at this time that a lower base in FY 1986-87 will reduce the estimate for FY 1987-88 by approximately the same amount. On February 15, 1987 with another month of actual revenue collected including Christmas sales and a clearer indication of the direction of the economy, a more accurate assessment of the revenue situation will be possible.

Board of Economic Advisors

J.A.M.

January 16, 1987

TABLE I

GENERAL FUND REVENUES
Forecast FY 1986-87
In Millions of Dollars

	ACTUAL FY 1985-86	APPROPRIATION ACT JUNE 26, 1986 FY 1986-87	BEA	
			NOV 1, 1986 ESTIMATE FY 1986-87	JAN 16, 1987 REVISED FY 1986-87
TOTAL GENERAL FUND (1)	2509.3	2778.1	2680.3	2645.3
Total Regular Sources (1)	2468.2	2735.3	2637.5	2602.5
Sales Tax (1)	893.3	963.2	950.3	943.3
Individual Income Tax	907.3	1041.2	986.8	974.8
Corporation Income Tax	185.0	223.9	199.0	185.0
All Other	482.6	507.0	501.4 (2)	499.4 (2)
Miscellaneous Sources	41.1	42.8	42.8	42.8
Education Improvement Fund			237.6	235.8
Interest on Education Improvement Fund			1.8	1.8
TOTAL			239.4	237.6

	<u>RATES OF CHANGE</u>
TOTAL GENERAL FUND	5.4%
Total Regular Sources	5.4
Sales Tax	5.6
Individual Income Tax	7.4
Corporation Income Tax	0.0
All Other	3.5
Miscellaneous Sources	4.0
Education Improvement Fund	6.2
Interest on Education Improvement Fund	-18.2
TOTAL	6.0

(1) Net of Education Improvement Fund.

(2) The changeover from an annual to a quarterly reporting system with the enactment of new insurance premium and retaliatory tax law will result in a one-time five quarter collection for the Insurance Tax, amounting to a \$16.4 million windfall for FY 1986-87.

Board of Economic Advisors
January 16, 1987

TABLE II

TOTAL GENERAL FUND REVENUES
QUARTERLY ESTIMATES
Fiscal Year 1986-87
(In Millions of Dollars)

FY 1986-87

FIRST QUARTER	665.5
SECOND QUARTER	1364.1
THIRD QUARTER	1975.3
FOURTH QUARTER	2645.3

PERCENT OF TOTAL REVENUES
COLLECTION BY QUARTER

FY 1986-87

FIRST QUARTER	25.2
SECOND QUARTER	26.4
THIRD QUARTER	23.1
FOURTH QUARTER	25.3

Board of Economic Advisors
January 16, 1987

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office). It was designed and operates as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity. Approximately 85 exogenous national variables are currently taken from three leading national forecasting services (Data Resources, Inc., Chase Econometrics, and Evans Economics, Inc.).

The SCOPE core model consists of 63 equations, of which 55 are stochastic* and 8 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 20 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income, unemployment, taxable sales and State tax revenue.

Durable Manufacturing Employment

The durable manufacturing employment block consists of 6 stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Products, Stone, Clay and Glass, Fabricated Metal Products, Electrical and Nonelectrical Machinery, and Other Durables which includes Furniture and Fixtures, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of 7 stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals, and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into 7 stochastic equations: Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government, and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 11 equations, one equation for the unemployment rate, and 10 additional equations for each of the 10 major components of personal income as published by the Bureau of Economic Analysis, Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

The revenue section of the model emphasizes 4 major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales tax, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are 2 stochastic equations for taxable sales and refunds.

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL

